

# FDIC State Profile

Spring 2005

## Kansas

The Kansas economy showed continued strength in the fourth quarter of 2004.

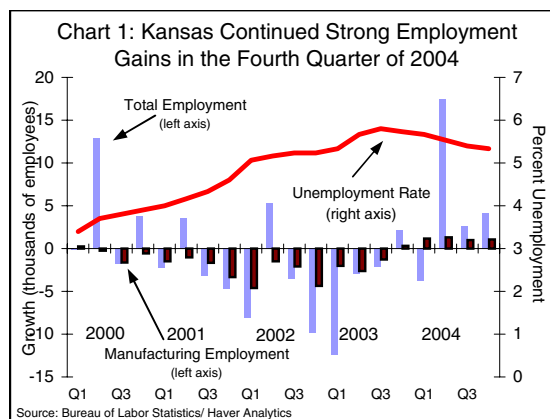
- The recovery of the state's economy gained momentum as job growth improved for the third consecutive quarter. Reported quarterly employment growth of 4,100 jobs contributed to the 20,300 added in 2004, the largest annual increase since 1998 (See Chart 1). The manufacturing sector continued to improve, with the fifth consecutive quarter of employment growth. This critical sector added 4,500 jobs in 2004, the first annual increase since 1998.
- The unemployment rate in the fourth quarter declined to 5.3 percent, the lowest level since first quarter 2003. The unemployment rate has been declining or stable for five consecutive quarters.

### Banking performance remains solid.

- Asset quality, which suffered only modestly through Kansas's 2000-2003 economic downturn, continues to improve (See Table 1). Loan activity, however, remains flat for the third consecutive year with the median loan-to-asset ratio at 60.6 percent.
- Loan mix continues shifting into real estate lending, specifically commercial real estate and farmland. Business and residential lending has been steady, while agriculture production and consumer lending have declined.
- Overall earnings performance appears stable, though it is lower than levels reported several years ago. However, the number of established institutions reporting earnings losses has increased three consecutive years and currently represents 5.1 percent of established institutions.<sup>1</sup>

### Boeing concludes sale of Wichita's commercial aerospace plant.

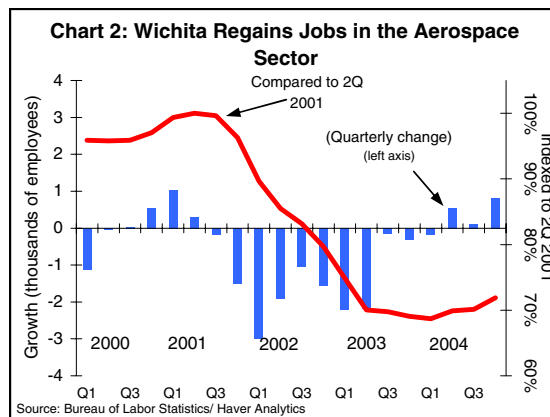
- Aerospace employment increased in the fourth quarter, reflecting hiring by both Boeing and the general aviation companies based in Wichita.



**Table 1: Asset Quality Continues Improving and Earnings Stabilize at Kansas's Insured Institutions**

	12-04	12-03	12-02	12-01	12-00
<b>Capital</b>					
Tier 1 Leverage Capital	9.6	9.3	9.4	9.5	9.6
<b>Asset Quality</b>					
Past Due Loan Ratio	1.45	1.63	1.91	1.82	1.74
Net Charge-off Rate	0.07	0.10	0.13	0.11	0.05
<b>Earnings</b>					
Pretax Return on Assets	1.22	1.23	1.36	1.32	1.47
Net Interest Margin	3.96	3.97	4.13	4.17	4.30

Source: FDIC. Figures are median percent values.



<sup>1</sup>Established institutions are insured institutions that have been in operation for at least three years.

## State Profile

- In February 2005, Boeing announced the sale of its commercial aerospace operations to the Toronto-based Onex Corporation. The sale included a plant in Wichita that presently employs 7,300 people.
- Wichita's aerospace employment remains 12,000 less than the peak level attained before the terrorist attacks of September 11, 2001 (See Chart 2).

### Commercial banks are likely to face pressure to raise nonmaturity deposit rates.

- In relatively stable interest-rate environments, the cost of bank nonmaturity deposits typically run at about half of the Federal funds rate. When short-term rates tumbled in 2001 and 2002, however, deposit rates failed to completely follow, indicating that nonmaturity deposit rates had reached a natural floor (See Chart 3).
- Should interest rates continue to rise, banks will likely feel increasing pressure from customers to raise deposit rates.

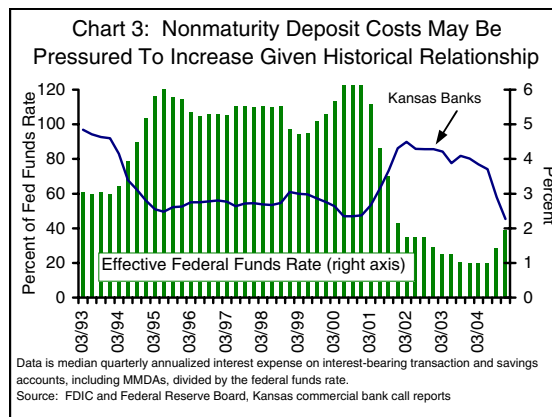
### Kansas farmland increased in value in 2004.

- According to an annual survey by the Kansas Agricultural Statistics Service, the average value of Kansas farmland increased more than 4.4 percent in 2004, compared with an annual average of 3.3 percent over the previous decade (See Map 1).
- While the average price of \$715 per acre was the highest recorded in current dollars, farmland prices in the 1980s were considerably higher in inflation-adjusted dollars. In 1982, for example, the average land price in Kansas exceeded \$1,041 in 2004 dollars.
- Survey respondents listed low interest rates and favorable returns from crops as the most important factors contributing to price increases.

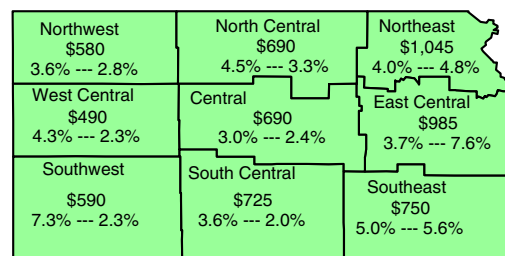
### Farm banks are concentrating agricultural lending on farmland.

- Over the past decade, farm banks have taken steps to diversify their loan portfolios, which tend to be heavy with agriculture production loans. Such loans declined from 37.5 percent of total loans to 27.2 percent between year-end 1994 and 2004 (See Chart 4).
- Despite the overall decline in farm operating loans, reliance on farmland-secured loans increased 31 percent during that period, with much of the increase coming in recent years. The increase in farmland lending is attributable to increased demand for farmland for both agricultural and nonagricultural uses, coupled with the stimulus of historically low interest rates.

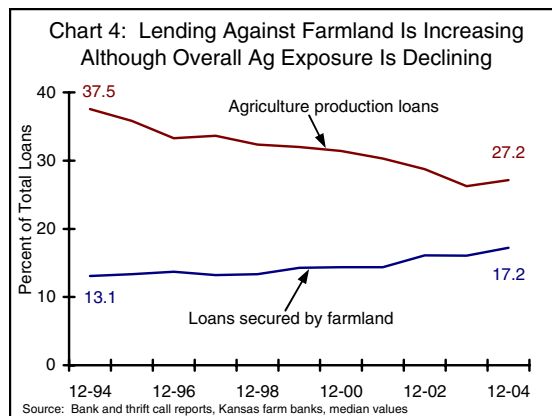
- With nearly 20 percent of farm bank loan volume secured by farmland, its price stability becomes more important. Any unexpected shocks to farmland values, such as swift increases in interest rates, significant cuts in federal farm payments, or decreased demand for farmland used for urban expansion or recreational purposes, could have adverse effects on producers and agricultural lenders.



Map 1: Kansas Farmland Values Increased Moderately in 2004



2004 Farmland Value in dollars per acre  
2004/2003 Increase --- 2003/1993 Annualized Increase  
Source: Kansas Agricultural Land Values, 2004



## Kansas at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	-1.2%	-1.2%	-0.5%	1.1%
Manufacturing (13%)	2.4%	-3.1%	-6.5%	-3.7%	-0.9%
Other (non-manufacturing) Goods-Producing (5%)	4.2%	-0.5%	-1.6%	-0.4%	-1.3%
Private Service-Producing (62%)	1.1%	-1.2%	-0.2%	-0.4%	1.5%
Government (19%)	1.5%	0.2%	-0.5%	1.6%	2.2%
Unemployment Rate (% of labor force)	5.3	5.7	5.2	4.6	3.9

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	4.4%	0.0%	4.1%	4.0%
Single-Family Home Permits	-20.6%	17.5%	1.0%	27.9%	-25.3%
Multifamily Building Permits	-66.4%	196.1%	-23.7%	-35.8%	-12.8%
Existing Home Sales	9.6%	9.2%	4.1%	10.4%	0.0%
Home Price Index	4.9%	4.3%	4.3%	5.5%	5.0%
Bankruptcy Filings per 1000 people (quarterly level)	1.34	1.36	1.36	1.20	0.98

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	372	380	380	390	393
Total Assets (in millions)	57,819	53,056	51,362	48,449	49,333
New Institutions (# < 3 years)	3	8	8	10	8
Subchapter S Institutions	158	150	139	130	118

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.45	1.63	1.91	1.82	1.74
ALLL/Total Loans (median %)	1.37	1.38	1.38	1.39	1.38
ALLL/Noncurrent Loans (median multiple)	2.18	2.06	1.75	1.88	2.15
Net Loan Losses / Total Loans (median %)	0.07	0.10	0.13	0.11	0.05

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.55	9.34	9.41	9.49	9.60
Return on Assets (median %)	1.00	0.97	1.07	1.04	1.13
Pretax Return on Assets (median %)	1.22	1.22	1.36	1.32	1.47
Net Interest Margin (median %)	3.96	3.97	4.14	4.17	4.31
Yield on Earning Assets (median %)	5.47	5.75	6.60	7.81	8.25
Cost of Funding Earning Assets (median %)	1.50	1.75	2.44	3.65	3.94
Provisions to Avg. Assets (median %)	0.08	0.11	0.14	0.12	0.09
Noninterest Income to Avg. Assets (median %)	0.61	0.64	0.60	0.60	0.58
Overhead to Avg. Assets (median %)	3.02	3.01	3.04	3.06	3.05

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	60.6	60.1	60.2	61.6	62.5
Noncore Funding to Assets (median %)	17.1	15.8	15.7	15.6	15.5
Long-term Assets to Assets (median %, call filers)	10.3	11.8	10.4	10.7	9.1
Brokered Deposits (number of institutions)	58	49	42	42	32
Brokered Deposits to Assets (median % for those above)	3.2	2.6	3.1	2.7	2.2

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	82.8	81.6	82.1	86.0	80.1
Commercial Real Estate	74.2	70.8	74.2	61.5	63.4
<i>Construction &amp; Development</i>	10.3	10.6	10.8	10.5	9.1
<i>Multifamily Residential Real Estate</i>	0.0	0.0	0.0	0.0	0.0
<i>Nonresidential Real Estate</i>	57.4	53.9	48.0	46.7	40.9
Residential Real Estate	125.7	122.9	135.9	131.7	129.8
Consumer	41.5	47.8	52.2	57.7	59.2
Agriculture	155.8	154.2	163.2	173.4	172.5

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Kansas City, MO-KS	154	31,123	< \$250 mil.	331 (89%)
Wichita, KS	59	8,062	\$250 mil. to \$1 bil.	32 (8.6%)
Topeka, KS	38	4,054	\$1 bil. to \$10 bil.	9 (2.4%)
St. Joseph, MO-KS	26	1,777	> \$10 bil.	0 (0%)
Lawrence, KS	25	1,363		